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Feature Article - Sales Tax

Reprinted with permission from the Australian Taxation Office Taxation Statistics 1995-96

Following is the 'Sales Tax' chapter from 'Taxation Statistics 1995-96'. For further information about the content and availability of 'Taxation Statistics 1995-96' see page 6 of this issue of Australian Economic Indicators (AEI).

WHAT IS SALES TAX?

Sales tax was introduced in 1930. It has developed from a single-rate tax with a limited number of exemptions, to a multi-rate tax with a range of exemptions.

Sales tax is paid on goods imported into Australia, and on goods which are manufactured and used or consumed in Australia.

Sales tax is generally paid when goods are sold by a manufacturer or wholesaler to a retailer. It may also be payable where goods are leased, imported by retailers for sale, imported by a consumer for private use, given away for promotional purposes, used as samples or used in the repair of other goods. Retailers are also required to pay Sales tax when goods are sold under indirect marketing arrangements.

Manufacturers and wholesalers who are required to pay Sales tax usually add the tax to the price they charge their customers. Retailers normally buy goods at a price that includes Sales tax and, in most cases, have no further liability when they sell the goods.

Some goods are exempt from Sales tax (Schedule 1). These include most foodstuffs, medicines and surgical goods, some building materials, clothing, books, magazines, periodicals and newspapers. There are also certain categories of end users, such as schools, that are able to claim a full exemption from all Sales tax.

The general rate of Sales tax is 22% (Schedule 4), and most items are taxed at this rate. However, there are exceptions. For example, items such as household furniture and bed linen are taxed at 12% (Schedule 2), items such as jewellery, televisions, videos, watches, clocks and cameras are taxed at 32% (Schedule 5), and a component of the value of luxury motor vehicles is taxed at 45% (Schedule 6).

In 1996-97, beer and spirits were taxed at 22% and wine was taxed at 26%. However, in August 1997 these rates were raised to 37% and 41% respectively.

TABLE 1: SALES TAX RATES (effective August 1997)

Schedule	Rate
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Schedule 1:	exempt
Goods that are exempt from tax includes: agricultural, mining, irrigation, fishing equipment, food, building materials, goods for use by governments etc.	
Schedule 2:	12%
Goods ordinarily used for household purposes	
Schedule 3:	under Schedule 4
Passenger motor vehicles	
Schedule 4:	22%
General, includes beer, spirits	
Schedule 5:	32%
Includes fur skins, jewellery, watches	
Schedule 6:	45%
Luxury motor cars (charged on excess)	
Schedule 7:	26%
Alcoholic wine/cider	
Schedule 8:	Under Schedule 2
Low alcohol wine/cider	

This occurred in response to a High Court decision that business franchise fees levied by the states were invalid. Revenue raised from this 15% surcharge is now distributed directly to the states.

This chapter contains sales tax data for the 1996-97 financial year.

SALES TAX COLLECTED

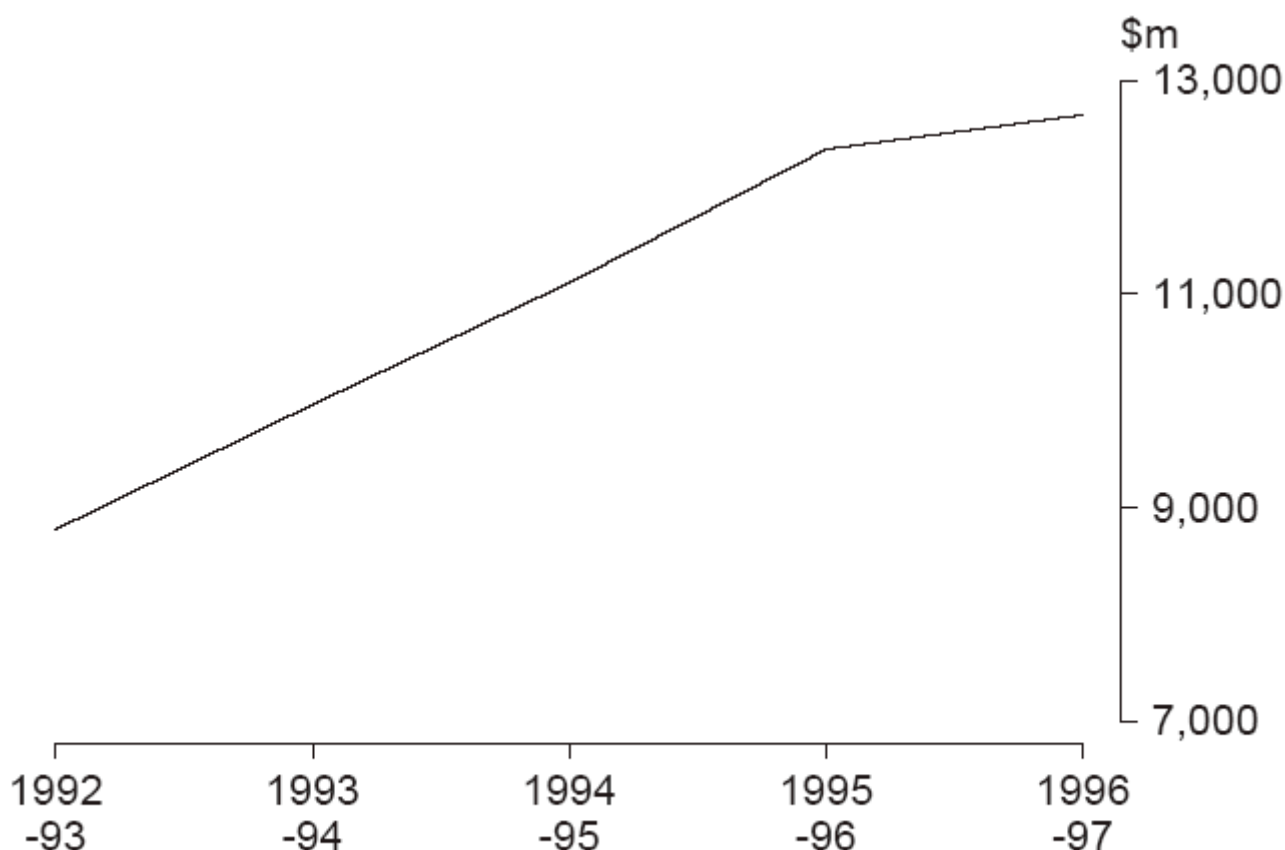
In 1996-97, \$13.3 billion was collected from Sales tax. Of this amount \$12.7 billion was collected by the Tax Office and \$0.6 billion through the Australian Customs Service.

While total Sales tax collected has increased for the last five years, the growth rate has declined each year. Between 1992-93 and 1993-94 the amount of Sales tax collected increased by 13%. Between 1995-96 and 1996-97 the increase was only 3%. In general, growth in Sales tax remittances is due to an increase in real consumption, increased prices and increased Sales tax rates. However, the Sales tax rates have not changed since July 1995 and growth attributable to inflation has been slowing since June 1995.

The largest State collection of Sales tax was in NSW (\$5.5 billion) followed by Victoria (\$4.3 billion). NSW and Victoria together collected 74% of total Sales tax. These high Sales tax collections are not only due to the high proportions of the Australian population in those states but also due to the concentration of manufacturers and wholesalers operating there. Victoria's share of total Sales tax increased from 29% in 1992-93 to 33% in 1996-97. Its total collections grew by 62% over that period. At the same time NSW and Customs collections increased by 39% and total collections increased by 44%. There was an 18% decrease in ACT collections resulting from new Tax Office administrative arrangements where most ACT Sales tax is included in NSW figures.

The majority of Sales tax is paid by a small proportion of taxpayers. In 1996-97, 86% of Sales tax was paid by 4% of taxpayers. This is a reflection of Australia's Sales tax system where manufacturers and wholesalers pay Sales tax before selling items to retailers.

GRAPH 1. SALES TAX COLLECTED BY THE TAX OFFICE



Source: ATO

Table 2: NET SALES TAX BY STATE(a)

State	1992-93		1996-97		Growth %
	\$m	%	\$m	%	
NSW	3,954	42.7	5,485	41.2	39
Vic.	2,687	29.0	4,343	32.6	62
Qld	982	10.5	1,298	9.8	34
SA(b)	546	5.6	712	5.4	30
WA	518	5.6	713	5.4	38
Tas.	89	0.8	95	0.7	22
ACT	51	0.6	42	0.3	-18
Customs(c)	447	4.8	620	4.7	39
Total	9,252	100.0	13,308	100.0	44

(a) The state in which the Sales tax was reported may be different to where the sale actually occurred.

(b) NT figures are included with SA.

(c) Refers to the Sales tax collected by the Australian Customs Service on imported goods.

SALES TAX TRADE GROUPS

The trade group paying the most Sales tax is the motor cars, commercial vehicles (including motor bodies) and semi-trailers group. In 1996-97 this group paid \$2.8 billion in Sales tax,

accounting for 22% of all Sales tax collected. This was an increase from \$1.5 billion or 17% of total Sales tax in 1992-93. The next largest group was beer, wine and spirits which paid \$1.4 billion in 1996-97 compared to \$0.9 billion in 1992-93. This group has maintained a stable 11% share of total Sales tax. Household appliances, parts and accessories, which held the third position in 1992-93 with a total of \$0.7 billion, has slipped in the last two years to fifth paying \$0.9 billion.

Generally, as Sales tax rates increase, the amount paid will increase, although there will be some substitution effect which will work to offset this. That is, if the Sales tax rate on one item increases, some consumers will delay purchase or will buy a substitute item. Therefore, the Sales tax collected will not increase to the full extent of the rate increase. In addition, the rates of increase have not been consistent across the Schedules. For the Motor vehicle group, the basic rate increased from 15% in 1993 to 22% in 1995. The General rate (Schedule 4) increased from 20% in 1993 to 22% in 1995. Such differential tax changes alter the contributions to total Sales tax of the various groups of taxed items.

Table 3: SALES TAX PAID BY SELECTED TRADE GROUPS (a)

Trade group	1992-93		1996-97	
	Tax paid \$m	of all Sales tax %	Tax paid \$m	of all Sales tax %
Motor cars, commercial vehicles etc.	1,464	16.6	2,778	21.9
Beer, wine & spirits	945	10.7	1,407	11.1
Machines & machinery	703	8.0	968	7.6
Domestic & office furniture, equipment & machines	531	6.0	858	6.8
Household appliances, parts & accessories	716	8.1	855	6.7
Printing, printed stationery, bookbinding & signwriting	378	4.3	495	3.9
Motor vehicle parts & accessories	524	6.0	459	3.6
Tyres, tubes, retread & recapped rubber, wet cell batteries, oils & greases	292	3.3	356	2.8
Aerated waters & cordials	284	3.2	330	2.6
Soaps, detergents, disinfectants, toilet & beauty preparations	295	3.4	332	2.6
Other	2,673	30.3	3,850	30.3

Total	8,805	100.0	12,688	100
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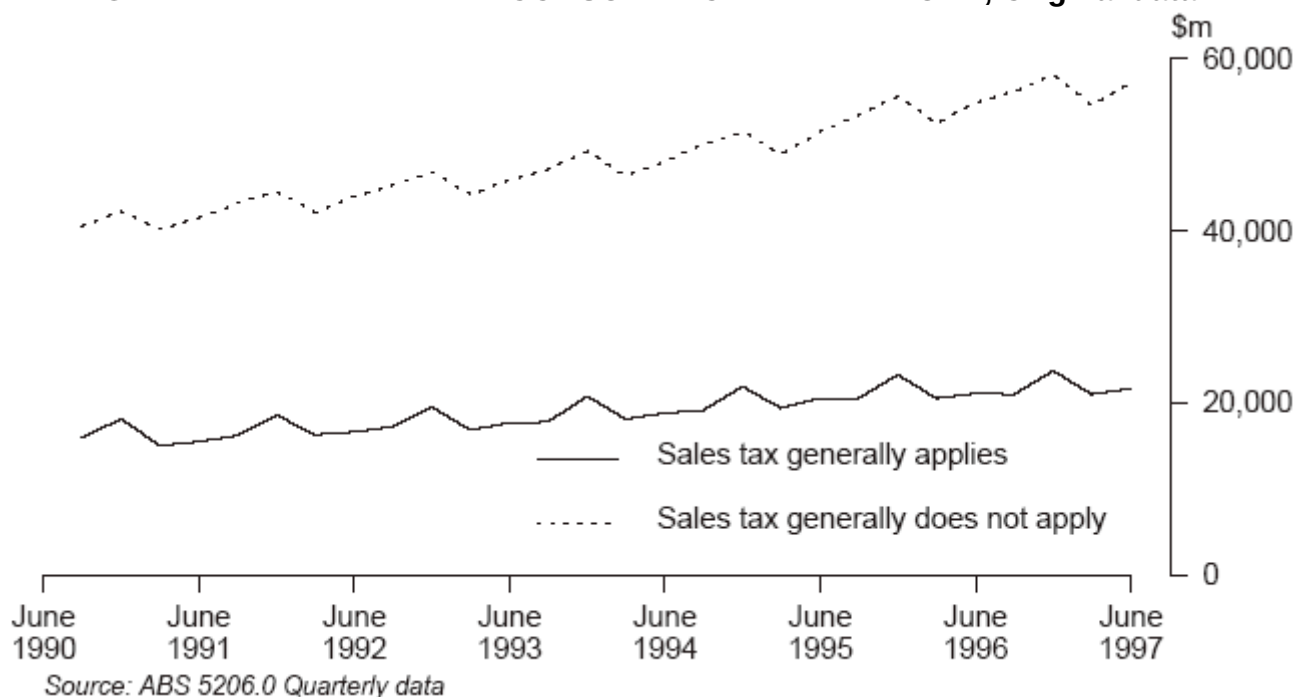
(a) Data excludes customs.

CONSUMER DEMAND

Collections of Sales tax are also dependent on consumer demand for the goods within the taxation base. Over time consumer demand varies, and some goods become more important to consumers than others. As Sales tax is not applied at a standard rate across all items, the changes in consumption patterns affect taxation collections. In recent years, there has been a general increase in the consumption of services which are not subject to Sales tax, compared to the consumption of goods which generally are subject to Sales tax.

The data in Graph 2 are based on broad categories of consumption expenditure identified in the Australian National Accounts. It is possible that some of these categories include both taxable and non-taxable items. For example, one category of consumption is health. This has been put into the 'Sales tax generally does not apply' category although it may include some taxable health-related goods. Despite this, the graph provides an overall picture of the consumption of taxable and non-taxable items in Australia.

GRAPH 2. PRIVATE FINAL CONSUMPTION EXPENDITURE, Original data



As an aside, it is also interesting to note that there is a peak once each year in the consumption of both taxable and non-taxable items. This occurs in December, and reflects Christmas buying and consumption patterns.

FURTHER INFORMATION

The following detailed tables on Sales tax can be found on the Taxation Statistics 1995-96 CD-ROM:

- Sales tax: paid in returns by business type - 1992-93 to 1996-97;
- Sales tax: net collections by state; and

- Sales tax: collections by grade of remittance.

For information on how to obtain copies of Taxation Statistics 1995-96 and for Tax Office contact details, see the article on page 6 of this issue of Australian Economic Indicators.

RECENT RELEASE from the AUSTRALIAN TAXATION OFFICE: TAXATION STATISTICS 1995-96

Taxation Statistics 1995-96 was recently released by the Australian Taxation Office (Tax Office). The publication presents a profile of the income and taxation status of Australian individuals, companies, partnerships and trusts using information from income tax return forms and other tax collections. It also presents information about the superannuation system as well as a profile of the Child Support Agency and its clients.

As many readers of Australian Economic Indicators will be aware, this Tax Office data is useful for a range of economic analyses. For the latest edition, the content and structure of the publication have been revised. Large complex tables have been replaced with smaller summary tables, and graphs have been used to illustrate some of the main issues and trends. In addition, text has been included to explain and analyse some of the main issues underlying the numbers. The chapter dealing with Sales tax is reprinted, with permission from the Tax Office, in this issue of Australian Economic Indicators (pgs 3-5).

STRUCTURE

The first chapter of the publication presents an overview of the Australian taxation system including an outline of the various taxes that the Tax Office collects. The second chapter presents an overview of taxation in the 1995-96 income year, including an outline of some of the main issues. The remaining chapters present statistics and analysis relating to specific market segments and types of taxes.

It presents information on:

- Individuals;
- Businesses (small and large);
- Companies;
- Funds;
- Partnerships and trusts;
- Fringe benefits tax;
- Sales tax;
- Capital gains;
- Pay-as-you-earn (PAYE) and the prescribed payments system (PPS); and
- Child Support Agency.

COLLECTION PERIOD

Taxation Statistics 1995-96 contains statistics based primarily on the tax returns lodged for individuals, companies, funds, partnerships and trusts for the 1995-96 income year. However, for Fringe Benefits tax, Sales tax, PAYE and PPS, the statistics relate to collections during the 1996-97 financial year.

STATISTICS ON CD-ROM

Taxation Statistics 1995-96 includes a CD-ROM. The CD-ROM contains an electronic copy of the publication and a series of detailed tables. Any tables contained in earlier editions of the publication that have been removed from the 1995-96 edition can be found on the CD-ROM. The CD-ROM also contains a range of additional information.

TAX OFFICE INTERNET SITE: ATOassist

Taxation Statistics 1995-96 and the detailed tables have been loaded onto ATOassist - the Tax Office Internet site. It can be found at www.ato.gov.au.

HOW TO ORDER

Taxation Statistics 1995-96 is available for \$25 at AusInfo Shops.

FURTHER INFORMATION

General inquiries about the content and interpretation of statistics in Taxation Statistics 1995-96, or about the availability of related data, should be directed to the Revenue Analysis Branch of the Australian Taxation Office, telephone 1800 806 214, or e-mail taxstats@ato.gov.au.

RELATED INFORMATION

The ABS title, Taxation Revenue, Australia (Catalogue no. 5560.0) is an annual publication. The 1996-97 issue contains statistics of revenue collected by all levels of government in Australia in the form of taxes, fees and fines for the years 1991-92 to 1996-97. Readers interested in further information about this ABS publication should contact Ms Donna Nicholson, Public Finance Section, telephone (02) 6252 7143.

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